

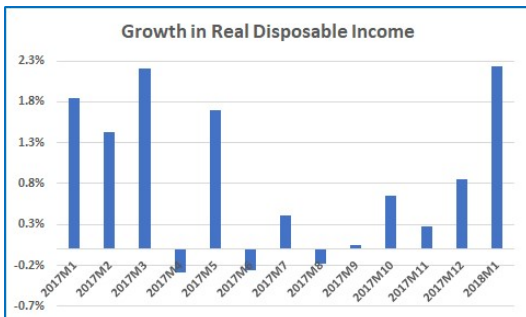
ECONOCAST™ UPDATE – March 5, 2018

© 2018 Fishkind & Associates, Inc. All Rights Reserved.

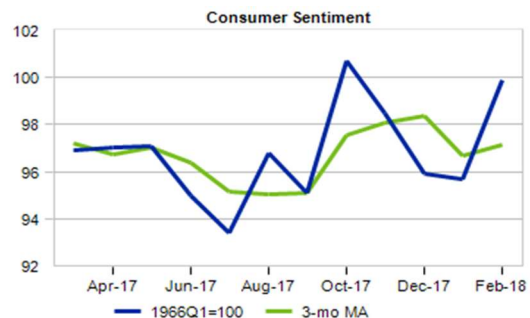
U.S. Economy – More Risk

The seeds for the next recession have already been sown. The tax cuts and the deficit-funded spending plan are stimulating demand and boosting federal borrowing. At the same time, the Fed is shrinking the money supply and raising interest rates. Last week the President announced an ill-considered plan to impose tariffs on steel and aluminum imports. If enacted as announced, it will trigger a trade war. So, it is likely to be toned down and targeted on China. Even if modified, the plan increases risk, and it accelerates the timing for the next recession.

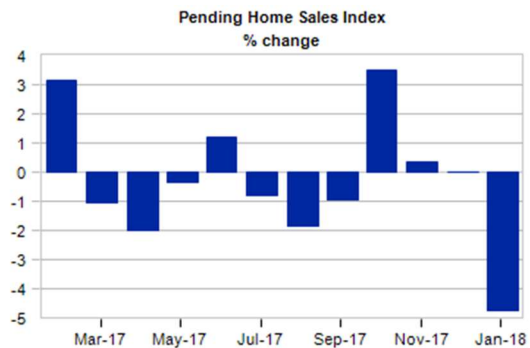
Economic news was mixed last week. On the plus side, the impact of the new tax law is already showing up in the data. Real disposable income increased at a 2.2% pace in January compared to an average increase of just 0.3% over the prior six months.



Also, business and consumer confidence remain very high. The ISM manufacturing index rose to 60.8 one of its highest-ever readings. Consumer confidence jumped too, as favorable views about the tax cuts overwhelmed concerns over rising interest rates and volatile stock prices.

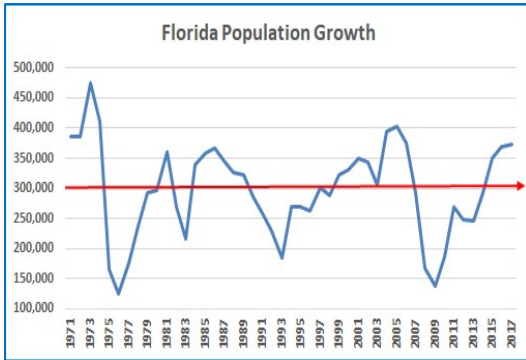


However, new home sales dropped 8% in January and pending sales fell 5% pushing them 4% below last year. While some of this was weather related, the weakness is troubling.

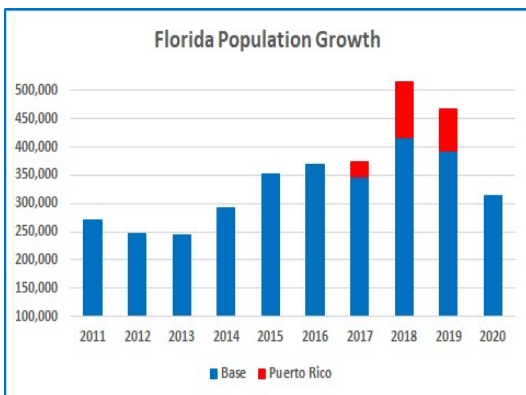


Florida Economy: Population Growth Strong – But Slowing

Florida’s population growth has averaged almost 300,000 per year from 1970-2017. Population growth is very sensitive to business cycles ranging from 476,200 in 1973 to 125,800 in 1976. The current expansion is similar to the 1970s but did not touch the prior lows or highs.

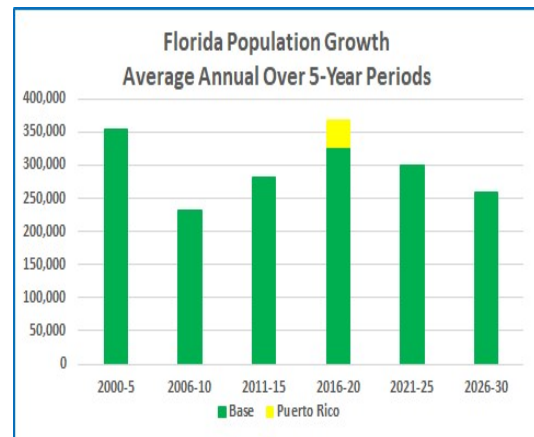


With the baby boomers now reaching retirement age, demographic forces suggested that Florida’s population growth would exceed the past peak. However, as discussed two weeks ago, the 50% drop in mobility has dampened the demographic tide. As a result, in 2017 baseline population growth dipped to 348,000 down from over 368,000 in 2016. This was surprising since economic conditions were more favorable for population migration in 2017 – yet domestic migration retreated.



The huge influx of migrants from Puerto Rico offset some of the falloff in domestic migration, but not all. Migration from Puerto Rico is accelerating this year and will be around 100,000 pushing population growth to a new all-time peak this year, adding to a strong year for domestic migration. By 2019 interest rates will be high enough to limit domestic migration and the bulk of movers from Puerto Rico will have already arrived in 2018, resulting in still strong-but lower population growth.

Looking ahead, the average annual rate of population growth will remain robust. However, total population growth will continue to slow. In fact, but for the influx from Puerto Rico, average annual population growth from 2016-2020 would be below levels in 2000-2005.



Demographic forces will weaken for Florida after 2020 when the bulk of the baby boomers have already retired and the next population cohort is smaller. In addition, there is no evidence or reason to believe that U.S. mobility rates will rebound back to levels last seen in the mid-1980s. Nevertheless, Florida will remain one of the fastest growing states in the U.S.